

INTRODUCTION OF UNDER SECRETARY FOR INDUSTRY AND SECURITY

Speaker Identification:

KN: Karen H. Nies-Vogel

EH: Eric Hirschhorn

DH: Daniel O. Hill

KN: It is now pleasure and my honor to introduce BIS's Deputy Under Secretary Daniel O. Hill.

Deputy Under Secretary Hill is the Bureau's Senior Career Official, as Deputy Under Secretary, Mr. Hill manages the daily operations of the Bureau of Industry and Security and advises Under Secretary Hirschhorn on a broad range of policy and management issues. Prior to his appointment as Deputy Under Secretary, Mr. Hill implemented and managed programs to insure that the U.S. Defense Industrial Base has the capacity and capability to meet current and future national security, economic security, and homeland security requirements.

Among other duties Mr. Hill was a representative to the Committee on Foreign Investment in the United States, the United States Government Interagency Working Group on Offsets. He advised the National Security Council on key defense trade policy issues, and was a member of the government coordinating council for the Defense Industrial Base.

He also advised the Homeland Security Council on critical infrastructure and defense industrial base issues.

Mr. Hill represented the United States Government as a member of the Industrial Planning Committee at NATO.

Mr. Hill was previously the Assistant Administrator for Technology at the U.S. Small Business Administration. He directed the SBA Small Business Innovation and Research and Business Technology Transfer programs which award \$1-billion in federal research and development projects to small businesses annually. While at the SBA Mr. Hill was a member of the White House National Science and Technology Council and Chair of the Small Business Working Group of the United States Innovation Partnership.

He was also a member of the National Science Foundation's Advisory Board and served on the President's Council for Y2K conversion.

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Ladies and gentlemen please welcome Deputy Under Secretary Dan Hill.

DH: Good morning everyone. Thank you Karen for those kind words and please let me express my thanks and congratulations to you and your entire team for the wonderful work you all have undertaken in planning this year's Update Conference. Because of your efforts I know it will be an outstanding success. Please join me everyone in thanking Karen and her team by giving them a warm round of applause.

This morning I will be introducing our Lead House Speaker for today's sessions, the Honorable Secretary for Industry Security, the Honorable Eric Hirschhorn. I know that many of you have attended our Update Conferences over the past few years. As you attended you heard about the exciting and busy times at the Bureau of Industry and Security as we and our sister export control agencies work to develop and execute President Obama's directive to creating new export control system that better addresses the myriad of threats to our national security that the United States faces today. From terrorist organizations to rogue states to destabilizing military monitorization efforts by others, our challenge is to protect American interest here at home and around the world are daunting. At last year's Update Conference you heard about our tremendous progress and how much we had accomplished. Many of you were amazed that we were actually making real changes.

Well get set, get set to be amazed all over again because you are about to have three days of briefings, interactive sessions, and small group opportunities that will again demonstrate the outstanding work that has been done by the Bureau of Industry and Security over the past year.

I can think of no better way to start this conference than from hearing from our first speaker this morning, BIS Under Secretary Eric Hirschhorn. As most of you very well know Eric's breath of experience and depth of knowledge about export controls is unrivaled. In fact I like to kid him, he actually literally wrote the book on Export Controls, and he did not pay me to say this, but it is in its third edition.

From 1980 to 1981 Eric served in the Carter Administration as a Deputy Assistant Secretary for Export Administration. That's where I first met Eric and had the pleasure of working for him for the first time. He later worked as a partner in private practice representing foreign domestic clients on a wide range of

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commercial, financial, and regulatory matters, as well as being involved in other aspects of international transactions.

Especially over the past year Under Secretary Hirschhorn's leadership has been crucial, it has been crucial in moving Export Control Reform along. He has earned the respect and admiration, not just within his team at Commerce, within the Office of Secretary at the Department of Congress, but across the inner-agency, no small feat, and at the White House, throughout industry as you well know, and indeed with the Congress.

Please join me in a warm welcome for our Under Secretary for the Bureau of Industry and Security - the Honorable Eric Hirschhorn.

EH: Thank you Dan, and good morning to all of you, it's a pleasure to see you here for our Update Conference. And thanks to Karen Nies-Vogel, Rebecca Joyce, and our outreach staff as well as the many BIS and U.S. government colleagues who have contributed to making this conference a success that I know it's going to be.

I'd like to take a moment to introduce our BIS Management Team, I am going to ask each of them to stand when I call his or her name, but please hold your applause until I have called everybody.

Assistant Secretary's David Mills for Enforcement, and Kevin Wolf Export Administration, Deputy Under Secretary Dan Hill, Chief of Staff Sharon Yanagi, Deputy Assistant Secretary's Matt Borman and Rich Majauskas, and Matt is back busy dealing with some announcements that are going to be made on another topic later today or tomorrow, so he is not with us this morning, he will be here later in the day. Our new Chief Financial Officer and Director of Administration, Kathryn Chantry, Director of Congressional and Public Affairs, Charles Kinney, and our Acting Chief Information Officer Eddie Donnell.

Thank you.

I also want to thank Brian Nilsson of the National Security Council staff, our colleagues from other departments and Capitol Hill who were involved in Export Controls, and the staff of BIS for their important work on Export Control Reform. It is an honor to work with each of you.

The success of Export Control Reform is not just about government, either, our accomplishments to date and those to come would not be possible without the cooperation that you in the exporting community have provided. Almost every state is represented here today along with 28 other countries. I think that says something

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about the commitment we've made to one another to see this reform process through. We value your comments and the resources you've committed to training employees, vendors, and customers on our new regulations and those of the Department of State.

Our partnership on Export Control Reform is the reason we have reached this point and will carry the reform effort to its successful completion.

I'd also like to thank my boss, Secretary of Commerce Penny Pritzker for being a vigorous advocate for the reform effort. Be sure to join us at tomorrow's luncheon for a message from her along with a keynote remarks from our new Deputy Secretary of Commerce, Bruce Andrews, who was confirmed by the way last week, so he is no longer acting.

This marks the fifth Update Conference at which I've discussed the importance of Export Control Reform. In 2010 I talked about why the U.S. Export Control system required comprehensive reform and shared my vision of the three E's that the U.S. government needed to insure the success of the reform effort. These are Efficiency of regulations including clarity about what they cover, Education, and Enforcement.

Today four years later we have converted many of our objectives into concrete regulations. With a few exceptions the U.S. Munitions List is being made into a positive list that controls only items that provide the United States with a significant military or intelligence advantage. Militarily less sensitive items such as parts and components have been and continue to be transferred from the licensing jurisdiction of the Department of State to that of the Department of Commerce.

License exceptions strategic trade authorization, STA, provides flexible and refined licensing arrangements for trade with and among our close allies. Enhanced compliance and enforcement measures create effective safeguards to deter diversion and misuse of controlled items.

Although the government must make the final call on what is our foreign policy and national security interests, our rules need to be transparent and predictable so that you, the manufacturing and exporting community, can be reliable, predictable, and successful exporters.

As I stated at the 2010 Conference the success of Export Control Reform rests on two fundamental principles. First the rules should be transparent and predictable, and second we must have both

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streamlined processes and higher fences to control sensitive items appropriately while facilitating exports of less sensitive items to destinations and end-users that do not pose substantial national security, proliferation, foreign policy, human rights, or similar concerns.

To review briefly we began the U.S. Munitions List review process in 2010 and that process has resulted in the removal as far as we and our sister agency's could of the basket categories that until now have accounted for about half of the 85,000 licenses issued annually by the Department of State.

Military items that don't warrant continued control on the U.S. Munitions List are becoming subject to the Export Administration Regulations, the EAR, and the new 600-Series of controls on our Commerce Control List.

At the risk of repeating myself, transferring items to the licensing jurisdiction of the Commerce Control List is not a decontrol. We made these changes because Commerce's regulations allow for country-based license exceptions as well as distinctions based on the technical parameters of an item. This is important because the Export Administration Regulations allow the government to right-size controls on less sensitive items, such as parts and components for a military vehicle that are destined for our country's allies and other multilateral control partners.

Commerce and State have published final rules covering controls on 15 categories of the Commerce Control List and the U.S. Munitions List. Commerce also published in April 2013 a transition rule describing how items previously controlled by the ITAR, the International Traffic and Arms Regulations, are to be dealt with under the EAR.

In January 2013 President Obama signed legislation restoring his authority to determine the appropriate Export Controls for satellites and related items. The May 2014 State and Commerce final satellite rules will transfer many items to the Commerce Control List, including commercial communications and lower performing remote sensing satellites, ground control systems, and radiation hardened microelectronics formerly controlled in Category-15 of the U.S. Munitions List.

The radiation hardened microelectronics portions of the rules took effect on June 27, the rest of these rules will take effect November 10.

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Turning to military electronics, the July 1 Commerce and State rules will add to the Commerce Control List certain military electronics equipment and similar articles formerly controlled on the U.S. Munitions List, Category-11, plus certain cryogenic and super conductive equipment that's been controlled by catch-all provisions of the State Department's International Traffic and Arms Regulations.

Commerce also published on July 1 a notice requesting information about civil end-uses of microwave monolithic integrated circuits, or MIMIC's, power amplifiers, as well as certain microwave transistors that will be controlled on our list as 600-Series items.

The results of this massive list review exercise including the satellite and electronics rules provide exporters with a number of benefits, including vastly improved interoperability with our closest friends and allies, availability of 25% day minus treatment to non-embargo destinations which should go far toward accomplishing Defense Secretary Gate's instruction to reduce incentives for non U.S. companies to design out or avoid U.S. origin content and services.

Eligibility for various license exceptions notably license exceptions STA, GOV which is for certain government end-users, and RPL which covers replacement parts. Elimination in many cases of the requirement for manufacturing license arrangements and technical assistance agreements, but we continue to control releases of technology through simpler BIS authorizations. Ability to apply for an export license before a purchase order is in hand.

Elimination of registration requirements, elimination of Defense Service Controls that again we at Commerce continue to control releases of technology in other ways. Elimination of Brokering constraints for less sensitive military items, but we still will control the transfer of the items themselves. And finally the absence of registration and licensing fees under our Export Control Regulations.

Many satellite and electronics items that have been transferred to Commerce will be eligible for license exception STA which permits the export of certain items to 36 allied and friendly countries. STA in effect establishes a license-free zone to cover the initial transaction while creating new safeguards to insure that items are not diverted outside the designated country group and the designated end uses within that group.

The second E is Education, and with it goes compliance. A core principle for our Export Control system is insuring an informed regulated community, neither you nor we can reap the benefits of Export Control Reform without insuring that the regulated community understands, is able to comply, and complies with the rules. The list review rules strengthen our national security, they also assist you by making it easier to market to our closest friends and allies. Here as elsewhere in life, however, there is no free lunch, and Export Control Reform in some respects increases your compliance responsibilities.

A more nuanced export control system means a somewhat more complex system, now we could have a simpler system that maintains controls and licensing requirements on virtually everything. I don't think any of you wants that and that's what we've been trying to get away from in this reform effort. But the price for removing some license requirements is greater nuance and greater reliance upon exporters to see to compliance.

We in BIS are few in number, we rely on industry as the frontline in educating not only internally but also externally your supplier base and where practicable your customer base as well. The keys to successful compliance include internal coordination, how has your company developed and coordinated its internal export control planning, ranging from the training of staff to reclassifying products affected by reform, to revamping your IT compliance tools.

The second key is communication, how have you engaged and trained your supplier base, your employees, and your customers. If you're a U.S. Subsidiary of a foreign-owned company, what compliance training and processes are you providing for your foreign parent.

Finally have you engaged in early collaboration with the U.S. government to address complex cases or instances where you may have violated our rules.

Since 2010 we have been working hard to get the word out, BIS provides comprehensive outreach services to exporters ranging from seminars to online interactive tools to weekly teleconferences to one on one exporter counseling. Notwithstanding fiscal austerity, the bureau conducted more than 200 export control outreach activities during Fiscal 2013, including weekly interactive teleconferences open to all comers that are conducted by Assistant Secretary Kevin Wolf.

As we continue to implement Export Control Reform we'll offer training materials, conduct webinars, and undertake related actions

including the possibility of conducting joint outreach to your foreign partners.

It is imperative though that you play an important role in educating employers, suppliers, and your customer base. We are continuing to expand our public education effort, including developing partnerships with non-profit educational groups representing Defense Exporters, many of which are small and medium sized enterprises who may be new to the Export Administration Regulations.

The bureau is committed to helping our nation's businesses, particularly small businesses, reach their commercial potential while respecting our national security.

On Thursday, representatives from the Small Business Administration and the Minority Business Development Agency will participate in the Round Table session on exporting for small businesses.

The third E is Enforcement, the enhancement of our Export Enforcement capabilities is essential to the success of Export Control Reform.

We are coordinating interagency efforts to conserve finite resources, increase our visibility into foreign parties of concern, provide more clarity to exporters on how to address red flags, and continue a layered approach to verifying compliance.

In response to current events as well as to concerns that you have voiced to us we will present a cyber-threat panel this morning comprising government leaders from various cyber disciplines. They are here to explain the evolving threat posed to the United States as well as to discuss resources that are available to help defend against those threats.

Tomorrow afternoon, Assistant Secretary David Mills will discuss in depth the evolution of the Office of Export Enforcement and the Office of Export Analysis into a sophisticated law enforcement agency with criminal investigators and enforcement analysts collaborating with our licensing officers to identify and act upon violations.

We've created the Export Enforcement Coordination Center and the Information Triage Unit as part of Export Control Reform. The Export Enforcement Coordination Center insures that export enforcement agencies talk to one another and share relevant information. While the Information Triage Unit facilitates the

review of license applications by compiling, coordinating, and reporting intelligence about foreign parties.

Last December BIS published a final rule that strengthens the Unverified List, the UVL, by increasing U.S. government visibility into transactions involving foreign parties whose bona fides BIS has been unable to verify. We amended the regulations to first require exporters to file an automated export system record for exports involving a party appearing on the UVL, and to suspend the availability of license exceptions for parties that appear on that list.

In June we added 29 persons to the UVL, we could not verify their bona fides because an end-use check could not be completed satisfactorily, these are companies for which the key to removal from the list is in their own hands. Let us make our inspection, satisfy ourselves that the item the company or the items the company has received are where they are supposed to be and your removal from the list will follow from that.

BIS is continuing the layered approach to verifying compliance with license exception STA. The review of AES data, exporter and consignee records, plus some onsite document reviews has resulted in a high degree of compliance with the provisions of this license exception.

Finally it's important to repeat that in our enforcement efforts we are trying to focus on truly bad actors, as opposed to those who have a decent compliance program, make a mistake and work with us to remedy the situation.

So where do we stand?

Between October 15, 2013 when the first list changes took effect, and July 27 of this year, which was last Sunday, the number of Commerce specific Export Control Reform exports relating to 600-Series items has reached 29,000 with a value of \$1-billion.

BIS's Munitions Control Division has processed more than 5,000 600-Series licenses with an average processing time of 15.3 days.

Exporters now can use STA and other license exceptions to facilitate exports to key allies. STA has been used for more than 3,700 export transactions and exporters also have used other license exceptions such as RPL, GOV, and temporary exports, for an addition 7,800 transactions.

The benefits of using these exceptions include timely exports to key defense allies, no unexpected license proviso conditions,

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because they are in the Regs already, you know beforehand what they're going to be, lower acquisition and research costs for our Department of Defense, enhances U.S. and partner affordability throughout a product's life cycle, and reduction of the licensing burden for exporters.

The statistics I have cited will continue to grow as additional Commerce Control List Categories become eligible for 600-Series licensing treatment or license exceptions, and as existing State Department license for these items are used up or expire.

We've made significant progress but more work remains to be done. In the past year working closely with the Department of Defense, BIS has moved toward converting the interagency aspects of its export licensing from our 30-year-old ECAS system to the Department of Defense's U.S. Export System.

As you may recall the President directed that as part of the ECR initiative all U.S. government agencies involved in export licensing join U.S. Exports. The State Department already has done so. We have started the important late-stage of the effort known as End to End Testing and I am hopeful that all work will be completed within the next few months.

The success of paradigm changing initiatives such as Export Control Reform does not and cannot occur overnight. Rather it takes place in stages, much as a large building is constructed beginning with a foundation. Together we have built the foundation for a 21st Century Export Control System, establishing a ground floor of efficient regulations that allow you, the exporters, to make use of Commerce Department licenses and license exceptions with appropriate compliant safeguards.

Now we must complete the higher floors by focusing on education and compliance to facilitate and insure implementation of these new rules. We look forward to your insights and questions, and I thank you and we all thank you for your continuing partnership and your participation in this conference.

Thank you.

Now Export Control Reform has been the work of many-many dedicated people in numerous agencies, the White House, the Congress, and the exporting community but no one who has observed even a small portion of the process would dispute that Kevin Wolf, our Assistant Secretary of Commerce for Export Administration has played a central role in conceiving, executing, and now administering Export Control Reform.

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For more than 4.5 years he has devoted his heart and soul, not to mention his considerable intellect to getting this job done. And now we all know that it's a resounding success.

I must confess and I have been waiting several years now for that late night call from St. Elizabeth's Hospital informing me that Kevin has been found sitting on a curb somewhere drooling and babbling incoherently about STA, the 600-Series, and of course Specially Designed.

So far so good, though, and I do hope he will hold off having his inevitable breakdown until the entire project has been completed.

Kevin went to college at the University of Missouri and received degrees in Law and Public Policy from the University of Minnesota. Like me, he spent many years on the other side of the fence in private law practice representing exporters before coming to Commerce 4.5 years ago, and the rest indeed is history.

Please join me in showing your appreciation for Assistant Secretary Kevin Wolf.